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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
__X__ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1991

OR

_____ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 33-4259C 0-4331

IMAGE SYSTEMS CORPORATION
(Exact name of registrant as specified in its charter)

Minnesota	41-1620497
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11543 K-Tel Drive, Hopkins, Minnesota	55343
(Address of principal executive offices)	(Zip Code)

(612) 935-1171
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes _____ No __X__

As of March 18, 1992, there were 4,325,722 shares of Common Stock, $0.01 par value per share, outstanding.

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Part 1. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

IMAGE SYSTEMS CORPORATION

BALANCE SHEETS

(Unaudited)

	September 30, 1991	December 31, 1990
ASSETS		
CURRENT ASSETS:		
Cash	$245,388	$ 6,816
Accounts receivable	148,053	126,406
Inventory	410,552	272,501
Prepaid expenses	330	3,970
Total current assets	804,323	409,693
FURNITURE, FIXTURES AND EQUIPMENT, net	10,949	14,346
OTHER ASSETS	1,490	1,490
Total assets	$816,762	$425,529
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Notes payable to officer (Note 2)	$ -	$150,000
Accounts payable	174,719	87,247
Accrued liabilities	15,770	105,825
Total current liabilities	190,489	343,072
LONG-TERM NOTES PAYABLE TO OFFICERS (Note 2)	21',722	657,540
STOCKHOLDERS' INVESTMENT (Notes 2 and 3):		
Common stock, no par value, 10,000,000 authorized, 3,955,019 and 1,350,000 shares issued and outstanding	647,981	(575,083)
Deficit accumulated since June 5, 1991	(50,430)	-
	597,551	(575,083)
	$816,762	$425,529

See accompanying notes to financial statements.

Item 1. FINANCIAL STATEMENTS

IMAGE SYSTEMS CORPORATION

STATEMENTS OF OPERATIONS

(Unaudited)

	For the Quarters Ended September 30		For the Nine Months Ended September 30	
	1991	1990	1991	1990
NET SALES	$ 301,535	$170,398	$ 663,064	$ 367,567
COST OF PRODUCTS SOLD	253,033	134,453	562,710	295,683
Gross profit	48,502	35,945	100,354	71,884
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	71,389	73,897	384,578	212,224
Operating loss	(22,887)	(37,952)	(284,224)	(140,340)
INTEREST EXPENSE	11,938	18,922	37,826	51,732
Net loss	$ (34,825)	$(56,874)	$(322,050)	$(192,072)
NET LOSS PER SHARE	$ (.01)	$ (.04)	$ (.13)	$ (.14)
AVERAGE COMMON SHARES OUTSTANDING	3,353,000	1,350,000	2,561,000	1,350,000

See accompanying notes to financial statements.

Item 1. FINANCIAL STATEMENTS

IMAGE SYSTEMS CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1991 AND 1990

(Unaudited)

	1991	1990
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(322,050)	$(192,072)
Adjustments to reconcile net loss to net cash used for operating activities-		
Depreciation and amortization	3,397	4,102
Common stock issued for services	147,491	-
Changes in current assets and liabilities:		
Accounts receivable	(21,647)	(31,816)
Prepaid expenses	3,640	1,024
Inventories	(138,051)	22,742
Accounts payable	87,472	(20,362)
Accrued liabilities	38,427	53,579
Cash flows used for operating activities	(201,321)	(162,803)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Furniture, fixtures and equipment additions	-	(5,220)
Cash flows used for investing activities	-	(5,220)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net of offering costs	571,823	-
Borrowing (repayment) of long-term notes payable to officers	(131,930)	139,019
Cash flows provided by financing activities	439,893	139,019
Increase (decrease) in cash	238,572	(29,004)
CASH AT BEGINNING OF PERIOD	6,816	54,745
CASH AT END OF PERIOD	$245,388	$ 25,741
SUPPLEMENTAL OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 9,999	$ 483

See accompanying notes to financial statements.

Item 1. FINANCIAL STATEMENTS

IMAGE SYSTEMS CORPORATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1991 and 1990

(Unaudited)

1. ACCOUNTING POLICIES:

The information furnished in this report is unaudited but reflects all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods and are of a normal recurring nature. The operating results for the nine months ended September 30, 1991 are not necessarily indicative of the operating results to be expected for the full fiscal year. These statements should be read in conjunction with the Company's most recent audited financial statements included in the Company's Prospectus dated August 28, 1991.

2. SALE OF COMMON STOCK:

Effective August 28, 1991, the Company offered 1,000,000 shares in a public offering at $1 per share. On September 27, 1991, the Company sold 629,297 shares and received proceeds, net of offering costs, of $506,823. The Company repaid a $251,904 loan to a shareholder with a portion of the proceeds.

Subsequent to September 30, 1991, the Company sold 370,703 shares and received additional proceeds, net of offering costs, of $308,495. Warrants to purchase 100,000 shares at $1.20 per share of the Company's common stock were issued to the underwriter in connection with this offering.

3. TERMINATION OF S CORPORATION TAX ELECTION:

Effective June 5, 1991, the Company terminated its S corporation tax election. Accordingly, the accumulated deficit through June 5, 1991 of $1,046,703 was eliminated against common stock.

Since June 5, 1991, the Company has accumulated net operating loss carryforwards for federal income tax purposes of approximately $50,000 which expire in 2006. No income tax benefit has been reflected in the accompanying financial statements for this net operating loss carryforward.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company was formed on September 1, 1988 to design, assemble and market monitors for use with computers.

RESULTS OF OPERATIONS

Quarters Ended September 30, 1991 and 1990

Net sales for the quarter ended September 30, 1991 increased $131,137 or 77% over the comparable period in 1990. This increase was primarily due to an increase in marketing activity during 1991.

Gross profit increased $12,577 or 34.9% over the comparable period in 1990 and the gross profit percentage decreased from 21.1% to 16.1%. These changes were due to the addition of a color monitor to the product line during 1991. Color monitors have a lower gross profit per unit than other products.

Selling, general and administrative expenses for the quarters ended September 30, 1991 and 1990 were comparable.

Interest expense decreased by $6,984 primarily due to the conversion of the notes payable due to officers into common stock in April 1991.

Nine Months Ended September 30, 1991 Versus September 30, 1990

Net Sales for the nine months ended September 30, 1991 increased $295,497 or 80.4% over the comparable period in 1990. This increase was primarily due to an increase in marketing activity during 1991.

Gross profit for the nine months ended September 30, 1991 increased $28,470 or 39.6% over the comparable period in 1990, and the gross profit percentage decreased from 19.6% to 15.1%. These changes were due to the addition of a color monitor to the product line during 1991. Color monitors have a lower gross profit than other products.

Selling, general and administrative expenses for the nine months ended September 30, 1991 increased $172,354 or 81.2% over the comparable period in fiscal 1990 due to the issuance of 294,982 shares of common stock to nonofficer employees for past services ($147,491) and an increase of two salesmen.

Interest expense decreased $13,906 over the comparable period in fiscal 1990 due to conversion of the notes payable due to officers into common stock in April of 1991.

Liquidity and Capital Resources

Cash used for operating activities for the nine months ended September 30, 1991 totaled $201,321, an increase of $38,518 over the comparable period in fiscal 1990. This increase was primarily due to a buildup of inventories to meet market demands.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cash provided by financing activities for the nine months ended September 30, 1991 totaled $439,893, resulting primarily from the proceeds from sale of common stock. These proceeds were partially used to pay down a note payable due to an officer.

The Company's primary source of liquidity at September 30, 1991 was cash of $245,388. The Company believes that cash is adequate to meet the anticipated short-term liquidity and capital resource requirements of its business.

Further, subsequent to September 30, 1991, the Company sold 370,703 shares of common stock and received additional proceeds, net of offering costs, of $308,495.

IMAGE SYSTEMS CORPORATION
PART II
OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The Company did not file any reports on Form 8-K during the quarter covered by this Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 27, 1992

IMAGE SYSTEMS CORPORATION
Registrant

By _____
Dean Scheff, Chief Executive Officer

_____
Dean Scheff, Chief Executive Officer
(Principal Financial Officer)